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To: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: J. Tyler McCauley
Auditor-Controller

Subject: **NUEVO AMANECER LATINO CHILDREN'S SERVICES - A FOSTER
FAMILY AGENCY FOSTER CARE CONTRACTOR**

Attached is our audit report on Nuevo Amanecer Latino Children's Services (Nuevo Amanecer) fiscal operations for the period January 1, 1999 through December 31, 1999. Nuevo Amanecer is licensed to operate a Foster Family Agency (FFA) and, for the period of our review, had 142 certified homes with 382 children placed in those homes. The Agency's administrative office is located in the First Supervisorial District.

Summary of Findings

Our review disclosed a total of \$39,874 in questioned costs. Included in this amount are \$7,469 in questionable travel expenses and \$6,113 in unsupported meal costs. We also noted \$22,633 in credit card expenditures that were not adequately documented as program related.

In addition, we noted that the Agency maintained a contingency reserve of FFA funds that appeared to be beyond a "prudent" amount. The disposition of these monies should be discussed with DCFS.

We noted several deficiencies in Nuevo Amanecer's controls over the disbursement of FFA funds that contributed to the questioned expenditures discussed above. We also noted areas where Nuevo Amanecer needs to strengthen internal controls over payroll expenditures, bank reconciliations and foster parent payments. Details of our findings are discussed in the attached report.

DCFS should ensure that the Agency's management takes appropriate corrective actions to address the recommendations in this report. DCFS should also monitor this contractor to ensure that the corrective actions result in permanent changes.

Review of Report

We discussed our report with Nuevo Amanecer's management on December 11, 2000. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report. We thank Nuevo Amanecer management and staff for their cooperation during our review.

JTM:PTM:MR:RD:mtv

Attachment

c: David E. Janssen, Chief Administrative Officer
Public Information Office
Audit Committee Members
Commission for Children and Families
Department of Children and Family Services
Anita Bock, Director
Barry Chass, Assistant Division Chief
Ed Sosa, Chief, Out of Home Care Programs
Genevra Gilden, Chief, Quality Assurance Division
Nuevo Amanecer – Foster Family Agency
Jorge A. Acosta, Executive Director
Board of Directors
California Department of Social Services
Sharon Ferrante, Chief, Foster Care Audits Bureau
Evelyn Hemenover, Chief, Foster Care Rates Bureau

Nuevo Amanecer Latino Children's Services
Fiscal Audit of Foster Family Agency Contract

Schedule of Findings

Background

The Department of Children and Family Services (DCFS) contracts with Nuevo Amanecer Latino Children's Services (Nuevo Amanecer) Foster Family Agency to provide basic and therapeutic needs and services for foster care children placed in the Agency's care. Nuevo Amanecer is licensed to operate a Foster Family Agency (FFA) and, for the period of our review, January 1, 1999 through December 31, 1999, had 142 certified homes with 382 children placed in those homes. The Agency's administrative office is located in the First Supervisorial District.

Under the provisions of the contract, DCFS pays Nuevo Amanecer a monthly rate between \$1,362 and \$1,607 per child, based on rate criteria established by the California Department of Social Services (CDSS). Nuevo Amanecer pays the foster parents between \$565 and \$715 per month in accordance with the CDSS minimum payment requirement. During the period of our review, the Agency received approximately \$6,200,000 from DCFS and paid out approximately \$2,600,000 to foster parents.

Applicable Regulations and Guidelines

Nuevo Amanecer is required to operate its FFA in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- FFA Contract, including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations.
- California Department of Social Services - Manual of Policies and Procedures (CDSS- MPP).
- California Code of Regulations, Title 22 (Title 22).

Questioned Costs

We determined that Nuevo Amanecer used FFA funds for questioned costs totaling \$39,874. Details of the questioned costs are discussed below.

Credit Card Purchases

We noted \$30,541 in inadequately supported credit card expenditures. In most cases, the Agency provided us with credit card statements and credit card authorization slips but could not provide itemized receipts or other additional supporting documentation. Without itemized receipts and other documentation, we could not determine the types of purchases made and whether the purchases were allowable. Specifically, we noted the following:

- \$22,633 in miscellaneous credit card expenditures not supported by itemized vendor receipts.
- \$6,113 in restaurant meals charged by the Director and the President who are husband and wife. A total of 116 meals were charged during our review period. The Agency indicated that the meals were conducted for business purposes. However, the Agency was able to provide itemized receipts for only two of the 116 meals. Both meals that had itemized receipts included purchases for alcoholic beverages, unallowable per Section 2 of the Circular.
- \$466 for a Christmas party for the Agency's employees. The Agency did not provide itemized receipts or other supporting documentation.
- \$1,166 in automobile expenses for gasoline, washes and maintenance fees charged mostly by the Director to the Agency's credit cards. There were no mileage or travel logs to support the charges or other documentation to substantiate that the costs were incurred for business purposes. It should be noted that these charges were incurred in addition to the \$10,585 in mileage reimbursement claims made by the social workers and \$3,503 in other vehicle expenses.
- \$91 in undocumented credit card expenditures for parking and car rental fees.
- \$72 charged to the Agency's credit card for five movie tickets and food items purchased for one child and four adults. Based on the documentation provided, we were not able to determine if this expense was incurred for the benefit of a foster child placed with the Agency.

Bank Fees

\$50 was deducted from the Agency's bank account. This deduction was identified as "a bank originated entry" on the bank statement. However, the Agency was unable to explain the purpose of the deduction. Furthermore, this expenditure was not recorded in the general ledger.

Travel Expenses

Per Section 55 of the Circular, travel expenses are allowable when incurred by employees who are traveling on official business of the organization. We noted \$7,469 in unsupported and/or unallowable travel expenses, as follows:

- \$3,216 for airline tickets for the Director and President's son, who is not an Agency employee. The Agency has agreed that this expense is unallowable and has taken steps to reimburse the amount in question.
- \$2,247 paid for various airline tickets and hotel accommodations for the Director and the President. The Agency was not able to provide us with documentation to support the nature of the travel expenditure. Therefore, we cannot determine whether the travel was business related or personal.
- \$368 paid for an airline ticket for a Board Member. The Agency did not provide us with documentation to explain the purpose for this trip.
- \$546 paid for airline tickets to Chicago, Illinois, for the Director and the President. According to management, the purpose of the trip was to start a new FFA outside of California. This is an unallowable expense, as it is not related to providing care to Los Angeles County foster children.
- \$516 paid for airline tickets for the Director, the President and their son to return early from their personal vacation.
- \$450 for the President's medical expenses incurred during a trip to Guatemala. It should be noted that the President's family lives in Guatemala.
- \$126 in questionable credit card charges incurred by the Director during a business trip. Specifically, we noted \$110 for items purchased at a hotel's gift shop and \$16 for a health club fee. These charges appear unrelated to providing services to the foster children. Furthermore, the Agency's management was not able to explain the purpose of such charges.

Other Unallowable Costs

We noted \$1,814 in charges for lingerie items purchased from Victoria's Secret and T.J. Maxx.

Recommendations

1. **DCFS management resolve the \$39,874 in questioned costs and, if appropriate, collect any disallowed amounts.**

In order to demonstrate the ability to appropriately account for FFA funds and administer the FFA program in compliance with the terms of their agreement with the County, the Agency must immediately implement the following recommendations:

Nuevo Amanecer management:

2. **Maintain adequate supporting documentation for all foster care expenditures, including original itemized receipts.**
3. **Ensure that FFA funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the FFA.**

Unresolved Payment Discrepancies

Per our review of the Agency's accounting records, as of April 30, 2000, DCFS owed Nuevo Amanecer \$29,105 for foster care underpayments. Some of these underpayments date back as far as March 1999. We noted that Nuevo Amanecer had submitted Payment Resolution Forms (COV 71) to DCFS, but the underpayments remained unresolved.

Recommendations

DCFS management:

4. **Work with Agency management to resolve the \$29,105 in outstanding underpayments.**
5. **Monitor payments to foster care agencies more closely to ensure correct amounts are paid and any over/underpayments are resolved timely.**

Investing Foster Care Funds

As of December 31, 1999, the Agency had over \$1.3 million (24% of their annual \$6.2 million revenues) invested in mutual funds as a contingency reserve. The Agency did not have a formal plan or policy in place regarding the use of the funds or the amount of funds that can be held in reserve. Section 13.2 of the contract allows "reasonable funds" to be rolled over between fiscal years as a "prudent reserve". However, the Circular's contingency provisions state that "contributions to a contingency reserve or any similar provisions made for events the occurrences of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happenings, are unallowable."

It should also be noted that these funds are not bank or FDIC insured and involve investment risk, including possible loss of principal. Nuevo Amanecer should discontinue holding excess foster care funds in these types of investments. Any excess funds should be returned to DCFS or used to expand the foster care program.

Recommendations

Nuevo Amanecer management:

- 6. Immediately remove all foster care proceeds from any accounts that involve investment risk.**
- 7. Ensure any excess foster care funds maintained by the Agency are reasonable and in compliance with all applicable guidelines and regulations.**

Foster Parent Compensation

Effective July 1, 1999, CDSS increased the minimum rate Agencies are required to pay foster parents. However, Nuevo Amanecer did not increase the rate paid to their foster parents until November 1999. This resulted in underpayments to at least 12 foster parents for four consecutive months. Based on our testwork of a sample of foster parent payments, we noted a total of \$473 in underpayments on behalf of 32 (60%) of 53 foster children.

Recommendations

Nuevo Amanecer management:

- 8. Pay the \$473 in foster parent underpayments.**

9. Ensure all foster parents are paid appropriately and in accordance with minimum rates established by the CDSS.

Contract Compliance and Internal Controls

Our audit disclosed several contract compliance issues and internal control weaknesses in addition to those already mentioned. These deficiencies contributed to the questioned expenditures discussed above. DCFS should ensure that Nuevo Amanecer's management implements the corrective actions recommended in this report. DCFS should also monitor this contractor to ensure that the corrective actions result in permanent changes.

Disbursement Procedures

- Nuevo Amanecer purchases DVDs, videos, and other items to be used by staff, foster children and parents. However, the Agency does not maintain records to indicate who they give these items to. In order to adequately account for all expenditures, the Agency should maintain distribution records for all items purchased.
- The Agency does not require formal requisitions and approvals for purchases. During our review, we noted that the President made frequent purchases of items such as office supplies and toys, from various vendors and location. Without formal requisition forms and approvals, the Agency cannot ensure these purchases are authorized and used for their intended purposes. The Agency should establish formal procurement procedures and require that all purchases be approved by at least two individuals.
- The Agency did not maintain detailed vehicle mileage logs in accordance with the A-C Handbook, Section 3.014, which requires vehicle mileage logs showing dates, destination and headquarters, purposes of trips, and mileage driven.
- We noted that the Agency misclassified three (5%) of 60 expenditures in the general ledger.
- Several stop payment and overdraft charges were not recorded in the general ledger.

Recommendations

Nuevo Amanecer management:

10. Maintain records to account for the distribution of all purchases.

- 11. Establish formal procurement procedures and require that all purchases be approved by at least two individuals.**
- 12. Maintain detailed vehicle mileage logs for all Agency owned vehicles.**
- 13. Ensure expenditures are classified appropriately and accurately reflect the transactions of the Agency.**

Payroll Controls

We tested 12 employees' timecards and the found the following:

- Three were not completed properly. Specifically, hours worked were not filled in for each workday.
- One was inaccurately calculated.

Incomplete and inaccurately calculated timecards can result in inaccurate payments to employees and inadequate support for Agency expenditures. Agency management needs to ensure timecards are filled out completely and accurately.

Recommendation

- 14. Nuevo Amanecer management ensure timecards are filled out completely and accurately.**

Bank Reconciliations

Nuevo Amanecer does not sign and date their bank reconciliations. Therefore, we were unable to determine whether the bank reconciliations were prepared timely and reviewed for appropriateness and accuracy. Section 4.011 of the A-C Handbook states that monthly bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. Both the preparer and the reviewer should sign and date the bank reconciliations.

In addition, it appears that the Agency is not reconciling their bank accounts successfully. We noted the following discrepancies during our audit of the Agency's reconciliations:

- Two outstanding checks were already paid but were listed as outstanding.
- One outstanding check was erroneously recorded twice in the general ledger.

- Four checks were outstanding for more than six months but had not been cancelled/resolved.
- Five bank deposits were incorrectly calculated.
- For the payroll account reconciliation, the balance per the books did not agree with the general ledger balance.

Recommendations

Nuevo Amanecer management:

- 15. Reconcile the Agency's bank account in a timely manner, and ensure the reconciled bank balance agrees with the general ledger.**
- 16. Ensure bank reconciliations are reviewed by a supervisor and approved in writing for appropriateness and accuracy. The preparer and reviewer should sign and date the bank reconciliations.**
- 17. Ensure outstanding items are cancelled periodically and reconciling items resolved timely.**
- 18. Ensure bank deposits are accurately calculated.**